

**WATERWORKS DISTRICT NO. 2
OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2009**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/4/10

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
BOARD OF COMMISSIONERS
DECEMBER 31, 2009

<u>Commissioners</u>	<u>Office</u>	<u>Year Elected</u>	<u>Term</u>
Donald D. Forest 252 Hwy 119, Natchez, La 71456 318/352-7412	President	2009	2 yrs.
Clyde H. Masson 1527 Hwy 491, Cloutierville, La 71456 318/379-0126	Vice-President	2009	5 yrs.
John T. Batten, Jr. 4645 Hwy 494, Natchez, La 71456 318/352-6328	Sec./Treasurer	2009	4 yrs.
Ted Duggan 4463 Highway 494, Bermuda, La 71456 318/352-8636		2009	2 yrs.
Henderson Howard, Jr. P. O. Box 236, Natchez, La 71456 318/357-3158		2009	2 yrs.
Emile Metoyer 2353 Bermuda Road, Bermuda, La 71456 318/379-2407		2009	4 yrs.
John N. Rachal P. O. Box 33, Flora, La 71428 318/352-4731		2009	5 yrs.
E. C. Roge 1894 Highway 119, Natchez, La 71456 318/352-9912		2009	2 yrs.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
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NATCHEZ, LOUISIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

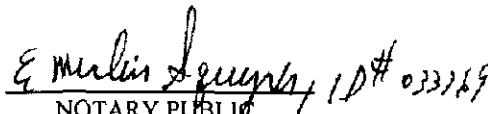
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

AFFIDAVIT

Personally came and appeared before the undersigned authority, Leslie Dunn, Manager of the Waterworks District No. 2 of Natchitoches Parish, who, duly sworn, deposes and says, that the financial statements herewith given presents fairly the financial position of Waterworks District No. 2 of Natchitoches Parish, at December 31, 2009 and the results of operations for the year then ended in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.


Manager

Sworn to and subscribed before me, this 7th day of May, 2010.


NOTARY PUBLIC
E. Merlin Spuyters

HINES, SHEFFIELD & SQUYRES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 2188 - 133 EAST FIFTH STREET
NATCHITOCHES, LA 71457

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Waterworks District No. 2 of Natchitoches Parish
Natchez, Louisiana 71456

We have audited the accompanying basic financial statements of the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, as of and for the year ended December 31, 2009, as listed in the table of contents. These basic financial statements are the responsibility of management of the Waterworks District No. 2 of Natchitoches Parish. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Waterworks District No. 2 of Natchitoches Parish as of December 31, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated May 7, 2010, on our consideration of the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis information on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Waterworks District No. 2 of Natchitoches Parish's basic financial statement. The accompanying supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The financial information for the year ended December 31, 2008, which is included for comparative purposes was taken from the financial report for that year in which we expressed an unqualified opinion dated March 13, 2009, on the basic financial statements of the Waterworks District No. 2 of Natchitoches Parish.

Hines, Sheffield & Squyres

Natchitoches, Louisiana
May 7, 2010

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009

The Management's Discussion and Analysis of Waterworks District No. 2 of Natchitoches Parish's financial performance presents a narrative overview and analysis of Waterworks District No. 2 of Natchitoches Parish's financial activities for the year ended December 31, 2009. This document focuses on the current year's activities, resulting changes, and currently known facts. Please read this document in conjunction with the Waterworks District No. 2 of Natchitoches Parish's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- 1) The Waterworks District No. 2 of Natchitoches Parish had cash and cash equivalents and investments of \$991,837 at December 31, 2009 which represents a decrease of \$38,909 from prior year end.
- 2) The Waterworks District No. 2 of Natchitoches Parish had accounts receivable of \$1,200,878 at December 31, 2009 which represents an increase of \$1,137,938 from prior year end.
- 3) The Waterworks District No. 2 of Natchitoches Parish had accounts payable and accruals of \$770,050 at December 31, 2009 which represents an increase of \$753,163 from prior year end.
- 4) The Waterworks District No. 2 of Natchitoches Parish had total operating revenues of \$704,076 for the year ended December 31, 2009 which represents a decrease of \$23,726 from prior year.
- 5) The Waterworks District No. 2 of Natchitoches Parish had charges for services revenues of \$661,575 for the year ended December 31, 2009 which represents a decrease of \$8,128 from prior year.
- 6) The Waterworks District No. 2 of Natchitoches Parish had total operating expenses of \$587,471 for the year ended December 31, 2009 which represents a decrease of \$13,491 from prior year.
- 7) The Waterworks District No. 2 of Natchitoches Parish had salaries and board per diem of \$193,397 for the year ended December 31, 2009 which represents an increase of \$18,643 from prior year.
- 8) The Waterworks District No. 2 of Natchitoches Parish had interest expense of \$85,845 for the year ended December 31, 2009 which represents a decrease of \$2,981 from prior year.
- 9) The Waterworks District No. 2 of Natchitoches Parish had a net change in net assets of \$68,635 for the year ended December 31, 2009 which represents a decrease of \$15,773 from prior year.
- 10) The Waterworks District No. 2 of Natchitoches Parish had capital asset purchases of \$3,755,521 for the year ended December 31, 2009 which represents an increase of \$3,345,990 from prior year.
- 11) The Waterworks District No. 2 of Natchitoches Parish had long-term debt principal payments of \$63,885 for the year ended December 31, 2009 which represents an increase of \$1,629 from prior year.
- 12) The Waterworks District No. 2 of Natchitoches Parish had long-term debt proceeds of \$3,927,365 for the year ended December 31, 2009 which represents an increase of \$3,752,009 from prior year.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Waterworks District No. 2 of Natchitoches Parish as established by Governmental Accounting Standards Board Statement 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.

Management Discussion and Analysis

Basic Financial Statements

Required Supplementary Information
(Other than MD&A)

These financial statements consist of three sections - Management's Discussion and Analysis (this section), the basic financial statements (including the notes to the financial statements), and required supplementary information.

Basic Financial Statements

This annual report consist of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets and Cash Flows (on pages 8, 9 and 10) provide information about the activities of Waterworks District No. 2 of Natchitoches Parish as a whole and present a longer-term view of the District's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report the District's net assets and changes in them. You can think of the District's net assets, the difference between assets and liabilities, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

FINANCIAL ANALYSIS OF THE ENTITY

Statement of Net Assets
As of Year End

	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 2,204,945	\$ 1,105,770
Capital assets, net	<u>6,320,678</u>	<u>2,729,343</u>
Total Assets	<u>\$ 8,525,623</u>	<u>\$ 3,835,113</u>
Accounts payable, accruals and other liabilities	\$ 877,623	\$ 119,228
Long-term debt and leases	<u>5,890,545</u>	<u>2,027,065</u>
Total Liabilities	6,768,168	2,146,293
Net assets		
Investment in capital assets, net of related debt	430,133	702,278
Restricted	97,545	82,107
Unrestricted	<u>1,229,777</u>	<u>904,435</u>
Total Net Assets	<u>1,757,455</u>	<u>1,688,820</u>
Total Liabilities and Net Assets	<u>\$ 8,525,623</u>	<u>\$ 3,835,113</u>

Net assets of the Waterworks District No. 2 of Natchitoches Parish's increased by \$68,635 or 4.06% from the previous fiscal year. The increase is the result of operating and other revenues exceeding operating and nonoperating expenses during the fiscal year ended 2009 (See table below).

Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended

	<u>2009</u>	<u>2008</u>
Operating Revenues	\$ 704,076	\$ 727,802
Operating Expenses	<u>587,471</u>	<u>600,962</u>
Operating Income	116,605	126,840
Nonoperating Revenues/(Expenses)	<u>(47,970)</u>	<u>(42,432)</u>
Change in net assets	<u>\$ 68,635</u>	<u>\$ 84,408</u>

The Waterworks District No. 2 of Natchitoches Parish's total operating revenues decreased by \$23,726 or 3.26% from the previous year. The total operating expenses decreased by \$13,491 or 2.24% from the previous year.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, Waterworks District No. 2 of Natchitoches Parish had \$6,320,678, net of depreciation, invested in a broad range of capital assets (See table below). This amount represents a net increase (including additions and deductions) of \$3,591,335 or 131.58% from the previous year.

Capital Assets at Year End
(Net of Depreciation)

	2009	2008
Land	\$ 18,721	\$ 6,806
Buildings and building improvements	26,603	29,091
Distribution system	1,973,605	2,109,786
Automobiles	18,555	32,281
Machinery and equipment	37,852	45,868
Construction in progress	4,245,342	505,511
Total	<u>\$ 6,320,678</u>	<u>\$ 2,729,343</u>

This year's major additions included:

Land	\$ 11,915
Distribution system	\$ 3,775
Construction in progress	\$ 3,739,831

This years's major retirements included:

Machinery and equipment	\$ 2,086
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Debt

Waterworks District No. 2 of Natchitoches Parish had \$5,890,545 in long-term debt and leases outstanding at year end compared to \$2,027,065 at the previous year end, an increase of \$3,863,480 or 190.59% as shown in the table below.

Outstanding Debt at Year End

	2009	2008
Revenue bonds	\$ 5,287,824	\$ 1,952,065
Certificate of indebtedness	0	25,000
Note payable - DHH	602,721	50,000
Totals	<u>\$ 5,890,545</u>	<u>\$ 2,027,065</u>

New debt during the year included:

None.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2009

ECONOMIC FACTORS AND NEXT YEAR'S RATES AND FEES

Management of Waterworks District No. 2 of Natchitoches Parish consider the following factors and indicators when setting next year's rates and fees. These factors and indicators include:

- 1) Long-term debt
- 2) Cost of operations
- 3) Number of Customers
- 4) State and federal Grants

The Waterworks District No. 2 of Natchitoches Parish does not expect any significant changes in next year's results as compared to the current year.

CONTACTING WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Waterworks District No. 2 of Natchitoches Parish's finances and to show Waterworks District No. 2 of Natchitoches Parish's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Leslie Dunn, Manager, 1665 Highway 119, Natchez, Louisiana 71456.

EXHIBIT A

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
STATEMENT OF NET ASSETS
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 111,918	\$ 165,612
Investments	782,374	783,027
Accounts receivable	1,200,878	62,940
Prepaid expenses	<u>11,185</u>	<u>11,039</u>
Total Current Assets	2,106,355	1,022,618
Noncurrent Assets		
Restricted assets	97,545	82,107
Capital assets, net	6,320,678	2,729,343
Deposits	<u>1,045</u>	<u>1,045</u>
Total Assets	<u>\$ 8,525,623</u>	<u>\$ 3,835,113</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Current portion of long-term debt	\$ 761,689	\$ 64,195
Accounts payable and accruals	<u>770,050</u>	<u>16,887</u>
Total Current Liabilities	1,531,739	81,082
Noncurrent Liabilities		
Long-term debt, net of current portion	5,128,856	1,962,870
Customer deposits	<u>107,573</u>	<u>102,341</u>
Total Liabilities	6,768,168	2,146,293
NET ASSETS		
Investment in capital assets, net of related debt	430,133	702,278
Restricted	97,545	82,107
Unrestricted	<u>1,229,777</u>	<u>904,435</u>
Total Net Assets	<u>1,757,455</u>	<u>1,688,820</u>
Total Liabilities and Net Assets	<u>\$ 8,525,623</u>	<u>\$ 3,835,113</u>

The accompanying notes are an integral part of this statement.

EXHIBIT B

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Charges for services	\$ 661,575	\$ 669,703
Connect fees	26,445	38,460
Late fees	14,498	14,265
Miscellaneous	<u>1,558</u>	<u>5,374</u>
Total Operating Revenues	704,076	727,802
OPERATING EXPENSES		
Advertising	272	2,128
Bad debt expense	583	819
Depreciation	164,186	181,992
Employee benefits	36,698	34,932
Equipment rental	13,434	19,275
Fuel	39,783	37,092
Insurance	0	10,000
Lease	10,949	13,311
Legal and accounting	18,024	21,268
Office supplies and other expenses	14,434	13,052
Payroll taxes	2,912	8,628
Repairs and maintenance	193,397	174,754
Salaries and board per diem	48,074	47,310
Supplies	5,515	4,952
Telephone	<u>39,210</u>	<u>31,449</u>
Utilities	<u>587,471</u>	<u>600,962</u>
Total Operating Expenses		
	116,605	126,840
Operating Income		
Nonoperating Revenues/(Expenses)	37,875	46,394
Interest income	<u>(85,845)</u>	<u>(88,826)</u>
Interest expense	<u>(47,970)</u>	<u>(42,432)</u>
Total Nonoperating Revenues/(Expenses)		
	68,635	84,408
Change in Net Assets		
	<u>1,688,820</u>	<u>1,604,412</u>
Net Assets, Beginning of year as restated		
	<u>\$ 1,757,455</u>	<u>\$ 1,688,820</u>
Net Assets, End of year		

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 710,379	\$ 728,193
Cash payments to suppliers for goods and services	(167,899)	(233,647)
Cash payments to employees and board members for services	(193,278)	(187,678)
Other operating revenues/(expenses)	<u>1,558</u>	<u>5,374</u>
Net Cash From Operating Activities	350,760	312,242
Cash Flows From Capital and Related Financing Activities		
Principal payments on revenue bonds	(38,885)	(37,256)
Principal payments on certificate of indebtedness	(25,000)	(25,000)
Proceeds from note payable	0	50,000
Proceeds from revenue bonds	2,784,938	125,356
Acquisition/construction of capital assets	(3,063,000)	(409,531)
Interest paid	<u>(86,221)</u>	<u>(88,967)</u>
Net Cash From Capital and Related Financing Activities	(428,168)	(385,398)
Cash Flows From Investing Activities		
Sale of investments	0	25,032
Interest income	<u>39,152</u>	<u>45,438</u>
Cash Flows From Investing Activities	<u>39,152</u>	<u>70,470</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(38,256)	(3,783)
Cash and Cash Equivalents, Beginning of year	<u>247,719</u>	<u>251,502</u>
Cash and Cash Equivalents, End of year	<u>\$ 209,463</u>	<u>\$ 247,719</u>
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating income	\$ 116,605	\$ 126,840
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation expense	164,186	181,992
Bad debt expense	583	819
(Increase)/decrease in operating assets		
Accounts receivable	2,629	304
Prepaid expenses	(146)	(203)
Increase/(decrease) in operating liabilities		
Accounts payable and accruals	61,671	(2,971)
Customer deposits	<u>5,232</u>	<u>5,461</u>
Net Cash Flows From Operating Activities	<u>\$ 350,760</u>	<u>\$ 312,242</u>

The accompanying notes are an integral part of this statement.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

The Waterworks District No. 2 of Natchitoches Parish was created by an ordinance of the Natchitoches Parish Police Jury on April 10, 1963. The District is a political subdivision of the Natchitoches Parish Police Jury, whose jurors are elected officials. The District Commissioners are appointed by the Natchitoches Parish Police Jury.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governmental entities. The GASB has issued a Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). This Codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such principles. The accompanying financial statements of Waterworks District No. 2 of Natchitoches Parish present information only as to the transactions of the programs of Waterworks District No. 2 of Natchitoches Parish as authorized by Louisiana statutes and administrative regulations.

Basis of accounting refers to when revenues and expenses are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accounts of Waterworks District No. 2 of Natchitoches Parish are maintained in accordance with applicable statutory provisions:

Revenue Recognition

Revenues are recognized using the full accrual basis of accounting; therefore, revenues are recognized in the accounting period in which they are earned and become measurable.

Expense Recognition

Expenses are recognized on the accrual basis; therefore, expenses, including salaries, are recognized in the period incurred, if measurable.

B. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows and consistent with GASB Statement 9, Waterworks District No. 2 of Natchitoches Parish defines cash and cash equivalents as follows:

Cash - includes not only currency on hand but also demand deposits with banks or other financial institutions and other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

Cash equivalents - includes all short term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments which, at the day of purchase, have a maturity date no longer than three months qualify under this definition.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Receivables

All receivables are reported at their gross value and, where applicable, are reduced by the estimated portion that is expected to be uncollectible.

D. Bad Debts

Uncollectible accounts receivable are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable. At December 31, 2009, \$0 were considered to be uncollectible.

E. Capital Assets

Capital assets are carried at historical costs. Depreciation of all exhaustible capital assets used by Waterworks District No. 2 of Natchitoches Parish are charged as an expense against operations in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. Capital assets net of accumulated depreciation are reported on the Statement of Net Assets. Depreciation is computed using the straight line method over the estimated useful life of the assets, generally 10 to 40 years for buildings and building improvements, 7 to 25 years for the distribution system, 5 years for automobiles and 5 to 10 years for machinery and equipment. Expenditures for maintenance, repairs and minor renewals are charged to earnings as incurred. Major expenditures for renewals and betterments are capitalized.

F. Compensated Absences

All full time employees of Waterworks District No. 2 of Natchitoches Parish are entitled to one week of vacation each year. Vacation time may not be carried over from one year to the next and does not vest or accumulate. Therefore, no liability for compensated absences has been recorded in the accompanying financial statements.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

A. Deposits with Financial Institutions

For reporting purposes, deposits with financial institutions including savings, demand deposits, time deposits, and certificates of deposit. Under state law Waterworks District No. 2 of Natchitoches Parish may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Further the Fund may invest in time certificates of deposit of state banks organized under the laws of Louisiana, national banks having their principal office in the state of Louisiana, in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate accounts of federally or state chartered credit unions.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 2 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

A. Deposits with Financial Institutions (Continued)

Deposits in bank accounts are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. The deposits at December 31, 2009 were secured as follows:

	Cash	Certificates of Deposit	Total
Deposits in bank accounts per balance sheet	<u>\$ 209,063</u>	<u>\$ 750,000</u>	<u>\$ 959,063</u>
	Cash	Certificates of Deposit	Total
Bank Balances (Category 3 Only, If Any)			
a. Uninsured and uncollateralized	\$ 0	\$ 0	\$ 0
b. Uninsured and uncollateralized with securities held by the pledging institution	0	0	0
c. Uninsured and uncollateralized with securities held by the pledging institution's trust department or agent but not in the entity's name	0	0	0
Total Category 3 Bank Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Bank Balances (All Categories Including Category 3 Reported Above)	<u>\$ 245,841</u>	<u>\$ 750,000</u>	<u>\$ 995,841</u>

The following is a breakdown by banking institution and amount of the balances shown above:

<u>Banking Institution</u>	<u>Amount</u>
Bank of Montgomery	\$ 15
Exchange Bank	19,752
Sabine State Bank	226,074
BB&T Financial	50,000
BMW Bank of North America	45,000
Capmark Bank	60,000
Discover Bank	45,000
Evabank	45,000
Firstbank Highland Park	45,000
GE Capital	50,000
Metrobank	45,000
Montgomery Bank & Trust	45,000
Sallie Mae Bank	50,000
Wachovia Bank	90,000
Washington Mutual Bank	180,000
Total	<u>\$ 995,841</u>

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 2 DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (CONTINUED)

B. Investments

Waterworks District No. 2 of Natchitoches Parish maintains investment accounts as authorized by the Louisiana Revised Statutes. Under state law, the District may invest in obligations of the U. S. Treasury and U. S. Agencies, or certificates of deposit. Investments are carried at fair market value as of the balance sheet date.

Investments can be classified according to the level of risk to the entity. Investments made by Waterworks District No. 2 of Natchitoches Parish as of December 31, 2009 are summarized below by the category of risk.

- Category 1 Insured or registered in the entity's name, or security held by the entity or its agent in the entity's name.
- Category 2 Uninsured or registered with securities held by the counterparty's trust department or agent in the entity's name.
- Category 3 Unsecured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

<u>Type of Investments</u>	<u>Amount Reported in Risk</u> <u>Category 3, If Any</u>		<u>Total Reported</u> <u>Amount - All</u> <u>Categories</u> <u>(Including</u> <u>Category 3)</u>	<u>Total Fair</u> <u>Value - All</u> <u>Categories</u> <u>(Including</u> <u>Category 3)</u>
	<u>Held By</u> <u>Counterparty</u>	<u>Held By</u> <u>Counterparty's</u> <u>Trust Dept. Or</u> <u>Agent Not In</u> <u>Entity's Name</u>		
Money market accounts	\$ 0	\$ 0	\$ 32,374	\$ 32,374
Total	\$ 0	\$ 0	\$ 32,374	\$ 32,374

NOTE 3 RESTRICTED ASSETS

At December 31, 2009, Waterworks District No. 2 of Natchitoches Parish had the following restricted assets:

Cash and cash equivalents	\$ 97,545
Total	\$ 97,545

NOTE 4 ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at December 31, 2009:

<u>Class of Receivable</u>	
Charges for services	\$ 52,518
Revenue bonds	1,142,427
Interest	5,933
Total	\$ 1,200,878

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 5 CAPITAL ASSETS

A summary of Waterworks District No. 2 of Natchitoches Parish's capital assets at December 31, 2009 follows:

	Balance December 31, 2008	Additions	Retirements	Balance December 31, 2009
Capital Assets, not being depreciated				
Land	\$ 6,806	\$ 11,915	\$ 0	\$ 18,721
Construction in progress	505,511	3,739,831	0	4,245,342
Total Capital Assets, not being depreciated	512,317	3,751,746	0	4,264,063
Capital Assets, being depreciated				
Buildings and Building Improvements	58,079	0	0	58,079
Less accumulated depreciation	(28,988)	(2,488)	0	(31,476)
Total Buildings and Building Improvements	29,091	(2,488)	0	26,603
Distribution System	3,418,898	3,775	0	3,422,673
Less accumulated depreciation	(1,309,112)	(139,956)	0	(1,449,068)
Total Distribution System	2,109,786	(136,181)	0	1,973,605
Automobiles	88,250	0	0	88,250
Less accumulated depreciation	(55,969)	(13,726)	0	(69,695)
Total Automobiles	32,281	(13,726)	0	18,555
Machinery and Equipment	57,468	0	(2,086)	55,382
Less accumulated depreciation	(11,600)	(8,016)	2,086	(17,530)
Total Machinery and Equipment	45,868	(8,016)	0	37,852
Total Capital Assets, being depreciated	2,217,026	(160,411)	0	2,056,615
Total Capital Assets, net	\$ 2,729,343	\$ 3,591,335	\$ 0	\$ 6,320,678

NOTE 6 ACCOUNTS PAYABLE AND ACCRUALS

The following is a summary of accounts payable at December 31, 2009:

<u>Class of Payable</u>	
Vendor	\$ 69,738
Construction in progress	692,521
Interest	6,402
Payroll taxes	1,389
Total	<u>\$ 770,050</u>

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 7 LONG TERM-DEBT

The following is a summary of debt transactions of Waterworks District No. 2 of Natchitoches Parish for the year ended December 31, 2009:

	Balance Dec. 31, 2008	Additions	Deletions	Balance Dec. 31, 2009	Current Amounts
Revenue Bonds - 1987	\$ 248,659	\$ 0	\$ 8,618	\$ 240,041	\$ 9,116
Certificate of Indebtedness - 1999	25,000	0	25,000	0	0
Revenue Bonds - 2004	1,578,050	0	30,267	1,547,783	31,852
Note payable - 2008	50,000	552,721	0	602,721	602,721
Revenue Bonds - 2008	125,356	3,374,644	0	3,500,000	118,000
Total	<u>\$ 2,027,065</u>	<u>\$ 3,927,365</u>	<u>\$ 63,885</u>	<u>\$ 5,890,545</u>	<u>\$ 761,689</u>

The terms of the individual debt issues of the District are as follows:

	Interest Rate	Maturity Date	Amount Issued	Amount Outstanding
Revenue Bonds - 1987	5.75%	2027	\$ 350,000	\$ 240,041
Revenue Bonds - 2004	4.50%	2044	1,678,578	1,547,783
Note payable - 2008	3.45%	2010	1,003,000	602,721
Revenue Bonds - 2008	3.45%	2029	3,500,000	3,500,000
Total			<u>\$ 6,581,578</u>	<u>\$ 5,890,545</u>

The annual requirements to amortize all debt outstanding as of December 31, 2009, including interest payments are as follows:

Year Ending December 31	Revenue Bonds Principal	Revenue Bonds Interest	Note Payable Principal	Note Payable Interest	Total
2010	\$ 158,968	\$ 203,314	\$ 602,721	\$ 3,402	\$ 968,405
2011	165,971	197,240	0	0	363,211
2012	173,071	190,897	0	0	363,968
2013	180,275	184,276	0	0	364,551
2014	187,589	120,917	0	0	308,506
2015-2019	1,061,871	772,734	0	0	1,834,605
2020-2024	1,306,596	550,247	0	0	1,856,843
2025-2029	1,514,846	284,377	0	0	1,799,223
2030-2034	428,682	75,573	0	0	504,255
2035-2036	109,955	3,004	0	0	112,959
Total	<u>\$ 5,287,824</u>	<u>\$ 2,582,579</u>	<u>\$ 602,721</u>	<u>\$ 3,402</u>	<u>\$ 8,476,526</u>

NOTE 8 LEASES

The Waterworks District No. 2 of Natchitoches Parish was not obligated under any noncancellable capital or operating leases at December 31, 2009.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2009

NOTE 9 LITIGATION

There was no outstanding litigation against the Waterworks District No. 2 of Natchitoches Parish at December 31, 2009.

NOTE 10 SUBSEQUENT EVENTS

Water Revenue Bonds, Series 2010

On February 23, 2010, the Waterworks District No. 2 of Natchitoches Parish issued \$1,003,000 in water revenue bonds, series 2010, bearing interest at 4.00% per annum with a February 23, 2050 maturity to payoff the \$1,003,000 in revenue bond anticipation notes, series 2008, issued on December 23, 2008. The anticipation notes were paid in full and cancelled on March 9, 2010.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE 1

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
SCHEDULE OF COMPENSATION PAID BOARD MEMBERS
DECEMBER 31, 2009

<u>Members</u>	<u>Meetings</u>	<u>Amount</u>
John T. Batten, Jr.	12	\$ 720
Ted Duggan	12	720
Donald D. Forest	12	720
Henderson Howard, Jr.	11	660
Clyde Masson	12	720
Emile Metoyer	11	660
Norman Rachal	12	720
E. C. Roge	8	<u>480</u>
Total		<u>\$ 5,400</u>

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

SECTION #1

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued. | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a) Material weakness(es) identified? | No |
| | b) Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

FEDERAL AWARDS

- | | | |
|----|--|---------------|
| 1. | Internal control over major program: | |
| | a) Material weakness(es) identified? | No |
| | b) Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 2. | Type of auditors report issued on compliance for major programs. | Unqualified |
| 3. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular OMB A-133? | No |
| 4. | Identification of major programs: | |

CFDA Number
66.458

Name of Federal Program
Capitalization Grants for Clean Water
State Revolving Funds

- | | | |
|----|--|-----------|
| 5. | Dollar threshold used to distinguish between Type A and Type B programs. | \$300,000 |
| 6. | Auditee qualified as low-risk auditee? | Yes |

SECTION #2

FINANCIAL STATEMENT FINDINGS

None reported.

SECTION #3

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED
DECEMBER 31, 2009

SCHEDULE 3

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM NAME	<u>CFDA NUMBER</u>	<u>Expenditures</u>
United States Department of Agriculture		
Passed through Louisiana Department of Agriculture and Forestry		
Water and Waste Disposal Systems for Rural Communities-Guaranteed Loan	10.760	\$ 1,547,783
Total United States Department of Agriculture		
 Environmental Protection Agency		
Pass through Louisiana Department of Health and Hospitals, Office of Public Health		
Capitalization Grants for Clean Water State Revolving Funds *	66.458	3,927,365
Total Environmental Protection Agency		<u>3,927,365</u>
 TOTAL FEDERAL AWARDS		 <u>\$ 5,475,148</u>

Notes to the Schedule of Federal Awards

- A. Federal awards are recorded when the reimbursable expenditures have been incurred.
- B. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Note: The dollar threshold to distinguish between type A and type B programs was \$300,000.

- * Denotes a major federal award program.

HINES, SHEFFIELD & SQUYRES, L.L.C.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Waterworks District No. 2 of Natchitoches Parish
Natchez, Louisiana 71456

We have audited the accompanying basic financial statements of the Waterworks District No. 2 of Natchitoches Parish, Natchez, Louisiana, a component unit of the Natchitoches Parish Police Jury, as of and for the year ended December 31, 2009, and have issued our report thereon dated May 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Waterworks District No. 2 of Natchitoches Parish's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks District No. 2 of Natchitoches Parish's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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This report is intended solely for the information and use of the Waterworks District No. 2 of Natchitoches Parish, management, federal awarding agency, pass-through entity and the Louisiana State Legislative Auditor and is not intended to be, and should not be, used by anyone other than the specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hines, Sheffield & Squyres

Natchitoches, Louisiana

May 7, 2010

HINES, SHEFFIELD & SQUYRES, L.L.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Waterworks District No. 2 of Natchitoches Parish
Natchez, Louisiana 71456

Compliance

We have audited the compliance of the Waterworks District No. 2 of Natchitoches Parish with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2009. The Waterworks District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Waterworks District No. 2 of Natchitoches Parish's management. Our responsibility is to express an opinion on the Waterworks District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Waterworks District No. 2 of Natchitoches Parish's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Waterworks District No. 2 of Natchitoches Parish's compliance with those requirements.

In our opinion, the Waterworks District No. 2 of Natchitoches Parish complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of the Waterworks District No. 2 of Natchitoches Parish is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Waterworks District No. 2 of Natchitoches Parish's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

Page #2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Waterworks District No. 2 of Natchitoches Parish, management, federal awarding agency, pass-through entity and the Louisiana State Legislative Auditor and is not intended to be, and should not be, used by anyone other than the specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hines, Sheffield & Squyres

Natchitoches, Louisiana

May 7, 2010

SCHEDULE 4

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2009

<u>Ref. No.</u>	<u>Fiscal Year</u>	<u>Description of Finding</u>	<u>Corrective</u>	<u>Planned Corrective</u>
	<u>Finding</u>		<u>Action Taken</u>	<u>Action/Partial</u>
	<u>Initially</u>		<u>(Yes, No,</u>	<u>Corrective</u>
	<u>Occurred</u>		<u>Partially)</u>	<u>Action Taken</u>

Nothing came to our attention that would require disclosure under Government Auditing Standards.

SCHEDULE 5

WATERWORKS DISTRICT NO. 2 OF NATCHITOCHES PARISH
NATCHEZ, LOUISIANA
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2009

<u>Ref. No.</u>	<u>Description</u> <u>of Finding</u>	<u>Corrective Action Planned</u>	<u>Name(s) of</u> <u>Contact Person(s)</u>	<u>Anticipated</u> <u>Completion Date</u>
-----------------	---	----------------------------------	---	--

Nothing came to our attention that would require disclosure under Government Auditing Standards.